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FILED ELECTRONICALLY
October 25, 2007

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington DC 20554

Re: WC Docket No 05-337, CC Docket No. 96-45 – *Ex Parte* Presentation

Dear Ms. Dortch:

On October 25, 2007, John Jones, Jeff Glover and Robert Shannon of CenturyTel; CenturyTel's Washington attorney, Greg Vogt; Mike Balhoff and the undersigned from Balhoff, Rowe & Williams conducted a telephonic ex parte meeting in the above-captioned dockets with Florida Public Service Commission Chairman Lisa Edgar, and Florida PSC staff members Roberta Bass, Jacob Williams and David Dowds. The accompanying documents were discussed.

Also on October 25, John Jones, Jeff Glover and Robert Shannon of CenturyTel; CenturyTel's Washington attorney, Greg Vogt; and, the undersigned conducted a telephonic ex parte meeting in the above-captioned dockets with Chris Moore of Commissioner Tate's office. The accompanying documents were again discussed.

Also on October 25, John Jones, Jeff Glover and Robert Shannon of CenturyTel; CenturyTel's Washington attorney, Greg Vogt; and, the undersigned conducted a telephonic ex parte meeting in the above-captioned dockets with Oregon Public Utility Commissioner Ray Baum. The accompanying documents were again discussed.

Sincerely,

Bob Rowe

Robert C. Rowe
Senior Partner

cc: Chairman Lisa Edgar, Commissioner Ray Baum, Roberta Bass, Jacob Williams, David Dowds, Chris Moore

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EX PARTE PRESENTATION TO FEDERAL-STATE JOINT BOARD ON UNIVERSAL SERVICE
Achieving Critical Policy Objectives Through Focused, Actionable Reforms

October 22, 2007

EXECUTIVE SUMMARY

- CenturyTel supports universal service reforms that will quickly bring stability to the program and that have the greatest likelihood for broad acceptance and swift implementation.
- CenturyTel offers five reasonable steps to meaningful, achievable reform.
- Targeted reforms should be grounded in key policy objectives that modernize universal service, achieve advanced services deployment objectives and promote overall fund stability.
- Reform is critical in order to foster stability and support critical to future infrastructure investment, expansion and maintenance.
- There is only a limited amount of funding available so targeted reforms should be linked with positive consumer outcomes and benefits.
- The Competitive Eligible Telecommunications Carrier (CETC) regime should be reformed by measures including
    - Immediately eliminating the "identical support" rule and basing support on the recipient's own costs.
    - Moving to implement a separate "mobility" fund based on defined objectives against which recipients will be held accountable.
- Flexibility is needed for incumbents to better target High Cost Fund support more closely with the costs of providing COLR service in specific areas.
- A separate, capped broadband program should be considered for the highest cost areas without broadband services today.
- Other important reforms are not currently before the Joint Board, but would be consistent with the specific actions the Joint Board may now take. These include:
    - Immediate adoption by the Commission of the Joint Board's well-considered "interim cap" recommendation.
    - Final reform of the contribution methodology

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Five Steps to Meaningful Universal Service Reform

1. **Stabilize the Fund**

   - Adopt the Joint Board's recommendation for an interim cap. The Joint Board's recommendation has been strongly endorsed by a diverse group of carriers, notably including both AT&T and Verizon, as well as by at least twenty-six letters of support from members of Congress.
     - The interim cap is the logical and least harmful first step toward both short and long term reform and workable solutions.
   - Implement a numbers/connections universal service contributions methodology.
   - RLECs should be able to elect a freeze of existing high cost support at a specified time to stabilize revenues and enable necessary funding support for high cost study areas that may be at risk under the present formula.

2. **Link Disbursements with Accountability**

   - For maximum consumer benefit, competitively neutral COLR requirements must apply to universal service disbursements for all USF carrier-recipients and must be combined with clear obligations/accountability.
   - The near-term reform should include the following elements:
     - The receipt of universal service dollars should be tied to demonstrated cost of investment/service from all recipients.
     - Immediate elimination of the identical support rule.
     - CETC support should be limited to true high cost support only and not IAS, ICLS or other access replacement fund sources unless there is demonstration that there is a cost justification.
     - Auctions may be considered to reduce multiple mobile wireless CETCs in ILEC study areas, possibly basing the selection on adherence to COLR and other obligations.

3. **Develop a Separate, Well-Defined Mobility Program**

   - A separate, limited mobility program should be established for all CETCs to ensure coverage in unserved areas and maintain wireless infrastructure.

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- The program would be funded in the same manner as all other Universal Service programs via existing or new contribution mechanisms.
- Eligibility for funding should be based on meeting specific obligations consistent with the purposes for which support is provided. These could include serving areas not otherwise served by wireless carriers and meeting E-911 and public safety obligations.
- To control pressure on the fund, clear requirements should be established for caps, eligibility, certification and number of handsets supported.

4. **Develop a Separate, Well-Defined Broadband Program**
    - A separate, limited, technology-neutral broadband program should be established for unserved and highest cost areas.
    - The program would be funded jointly through some savings from access replacement funds that are reformed to eliminate unnecessary CETC funding and through the existing or new contribution mechanism.
    - Consider a 2-track eligibility requirement based on 1) aid to construction for highest cost areas after investment has been made; and/or 2) a commitment to increase availability of evolving speeds to achieve reasonable comparability to services that are available in urban areas.

5. **Review Reforms for Public Interest Outcomes**
    - The FCC and Joint Board should review contributions, disbursements, voice and broadband availability within 24 months from the time of the initial reform implementation to determine if key outcomes are achieved.
    - Additional, more comprehensive reforms should be considered to accommodate new technologies, market conditions and consumer demand.

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Additional Discussion

I. Universal Service Reform: The Need for Stability to Support Critical Infrastructure Investment

- **Modernization of USF is critical.** An improved and modernized Universal Service Program is critical for supporting high quality infrastructure and future investment that benefits customers in high-cost regions, including deploying broadband in hard-to-serve markets.
- **Policy stability is needed to support investment.** Investors require greater policy stability and clarity surrounding the Universal Service Program. Ongoing uncertainty makes it increasingly difficult to provide advanced services, gain access to capital and meet the investment and operating needs of all customers - retail and wholesale - in high-cost areas.
- **Actionable steps based on financial realities and clear public policy principles are needed.** The FSJB and FCC have the opportunity to take important, realistically achievable steps that will provide a needed glide path for stability, favorable policy outcomes and greater consumer benefit. The Joint Board's recommendations should be based on a clear understanding of the longer-term financial realities and clear public policy principles, including an understanding of the linkage between USF and carrier-of-last-resort obligations.
- **Focused reforms have been proposed in the current system to minimize the loss of infrastructure support to many rural areas.** Larger rural carriers, including CenturyTel, are actually losing high cost fund support, quarter over quarter, as a result of the operation of the current funding formula.
- **Multiple goals including mobility require distinct and well-defined programs.** Universal access to reliable core network infrastructure, targeted support for further broadband deployment in rural markets and access to mobile voice services should be achievable through the reform process, but will require a better recognition of the differences in technology, economics, regulatory structure and consumer uses for each platform.

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II. Linking Reform with Consumer-Focused Outcomes: Key Considerations

Carrier of Last Resort and USF

- **Sharpen COLR obligations for USF.** Strengthening COLR obligations raises the bar for all providers, achieves technology and competitive neutrality and produces meaningful results for telecom customers.
- **COLR provides a useful theoretical foundation.** COLR permits policymakers to better link public support with a public benefit; and it provides a better path to avoiding the theoretical problems associated with "competitive neutrality"; if there is a single wireline and a single wireless COLR provider in a rural, high cost region, it also can reduce the funding obligations for specific services. The Joint Board has already been provided an analysis explaining the financial challenges carriers face in providing COLR.
- **COLR would be implemented through three elements.** Meaningful COLR obligations must be linked to the receipt of universal service funding to achieve: 1) actual investment or build-out requirements and ongoing maintenance expenses, 2) true and measurable consumer benefits/obligations (service quality definitions), and 3) clearly-defined accountability systems for reporting through policymakers to the public. The net result should include better control over the growth of the High Cost Fund.

III. CETC Reform Makes Sense From a Consumer Perspective

- **Recognition that mobility is a consumer-benefit, not competitive-neutrality.** Mobile wireless services in most rural markets provide a specific benefit to consumers—with lesser reliability and throughput, but real convenience; in rural areas, mobile wireless is not always as much a pure competitor to wireline access services, but is a more correctly a complementary service with different advantages and limitations.
- **Elimination of identical support rule.** The identical support rule is seriously flawed as the CETC system is not "identical" except in terms of per-line payments, since it is not based on investment-driven support and does not require the fulfillment of any obligations. Both forward-looking and embedded methodologies are based on evaluation of costs to provide a specific (wireline) service. "Identical" support is based on another carrier's costs (whether forward looking or embedded) and has led to wasteful and troubling results.
- **Distinct CETC program with distinct "systems."** Create a separate fund for CETCs with clear principles, obligations (possibly including COLR duties, capacity, reliability, ubiquity, E-911), and accountability provisions.

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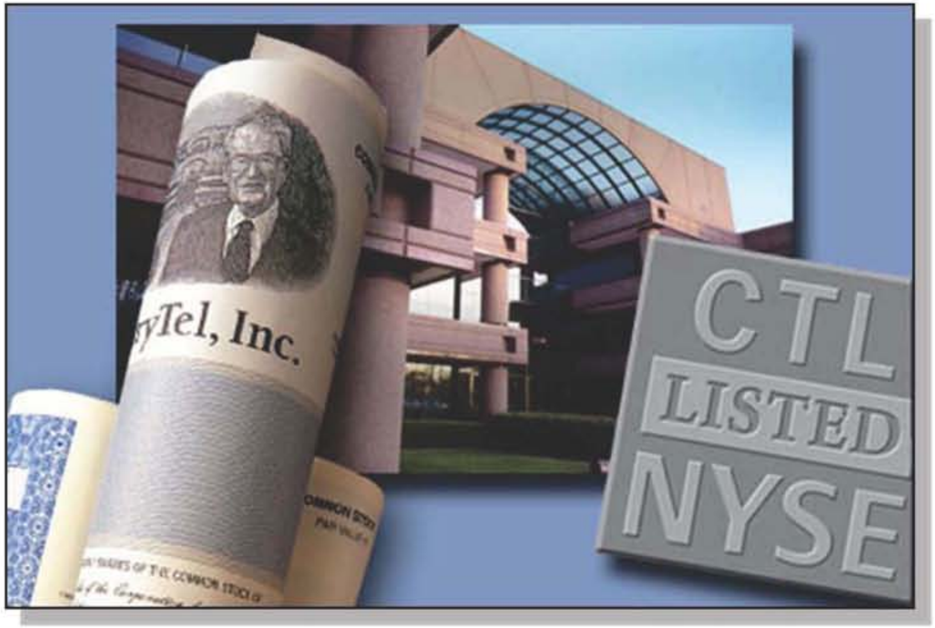
- **Auctions possible for mobile CETC designation.** Various auction approaches could be considered for providing infrastructure support for mobile CETCs.
- **Benefits include potentially focusing funding on single wireless mobile carrier.** Funding requirements for one mobile COLR provider could be reduced by approximately one-third of the current CETC obligation; and growth in funding would be better controlled.

IV. Targeting USF Monies to More Specific High-Cost Regions

- **Investment support is generally required outside population centers.** CenturyTel supported the Texas study on USF and targeting; report highlighted that positive returns on investment are generally concentrated in towns within rural regions, while areas outside of towns are demonstrably USF-dependent.
- **Competitors generally do not now serve high-cost regions outside rural towns, and appear unlikely to serve those areas.** CenturyTel notes that there is little competitive activity outside population centers and the investment costs make it unlikely that wireline competitors will serve those customers in the foreseeable future.
- **Targeted competition in population centers is undercutting the current USF system based on internal company cross-subsidies.** Policymakers have relied on monopoly-based support systems based on regional averaging of support and on internal company cross-subsidies which are failing to cope with emerging competitive patterns.

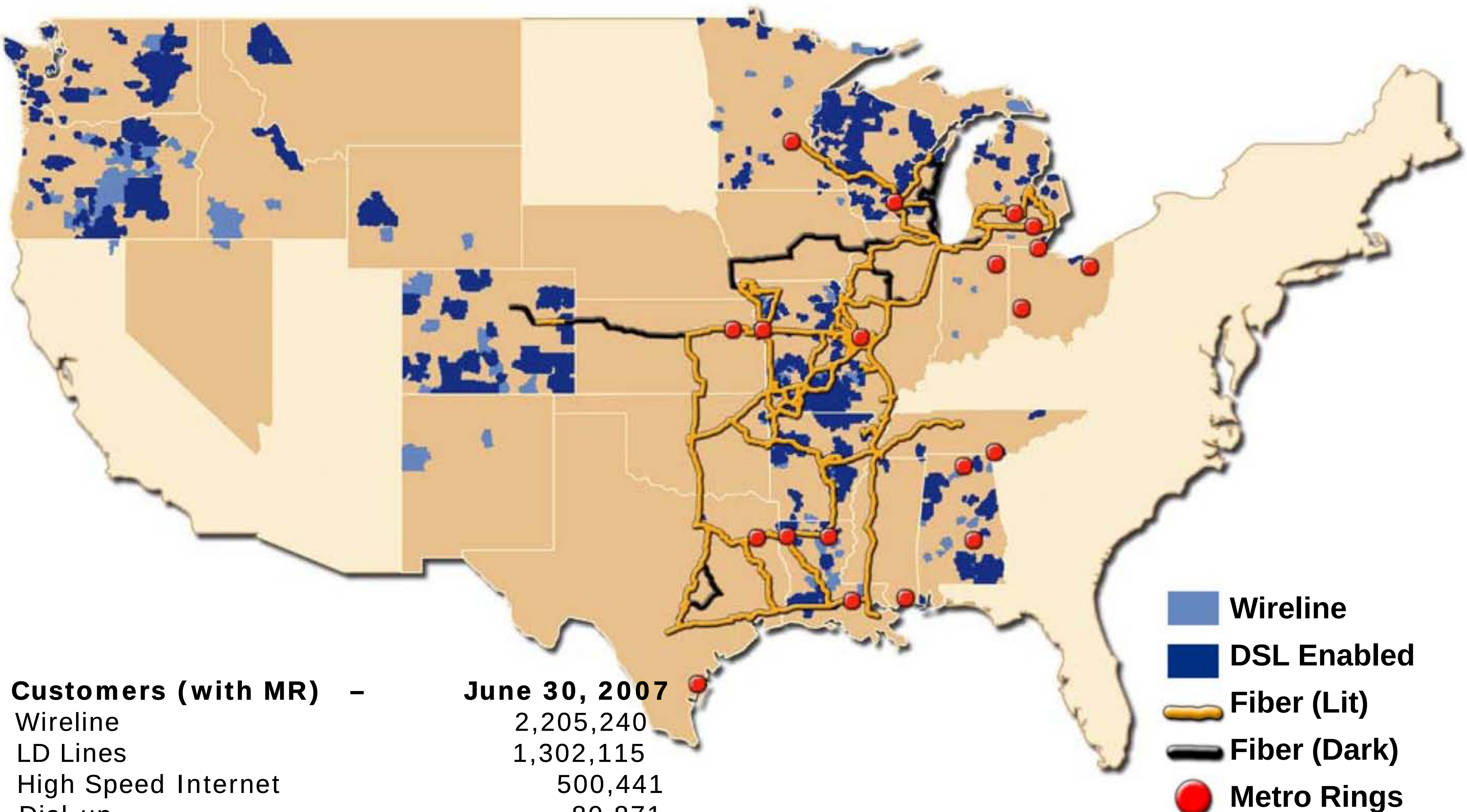
CenturyTel Overview

CenturyTel Today:



- A Leading Provider of Integrated Communications Services
- 7th Largest ILEC in the US, Serving Rural Areas and Small to Mid-Size Cities
- Pursuing Aggressive Broadband Deployment and Market Penetration
- Anticipating and Meeting Our Customers' Communications Needs

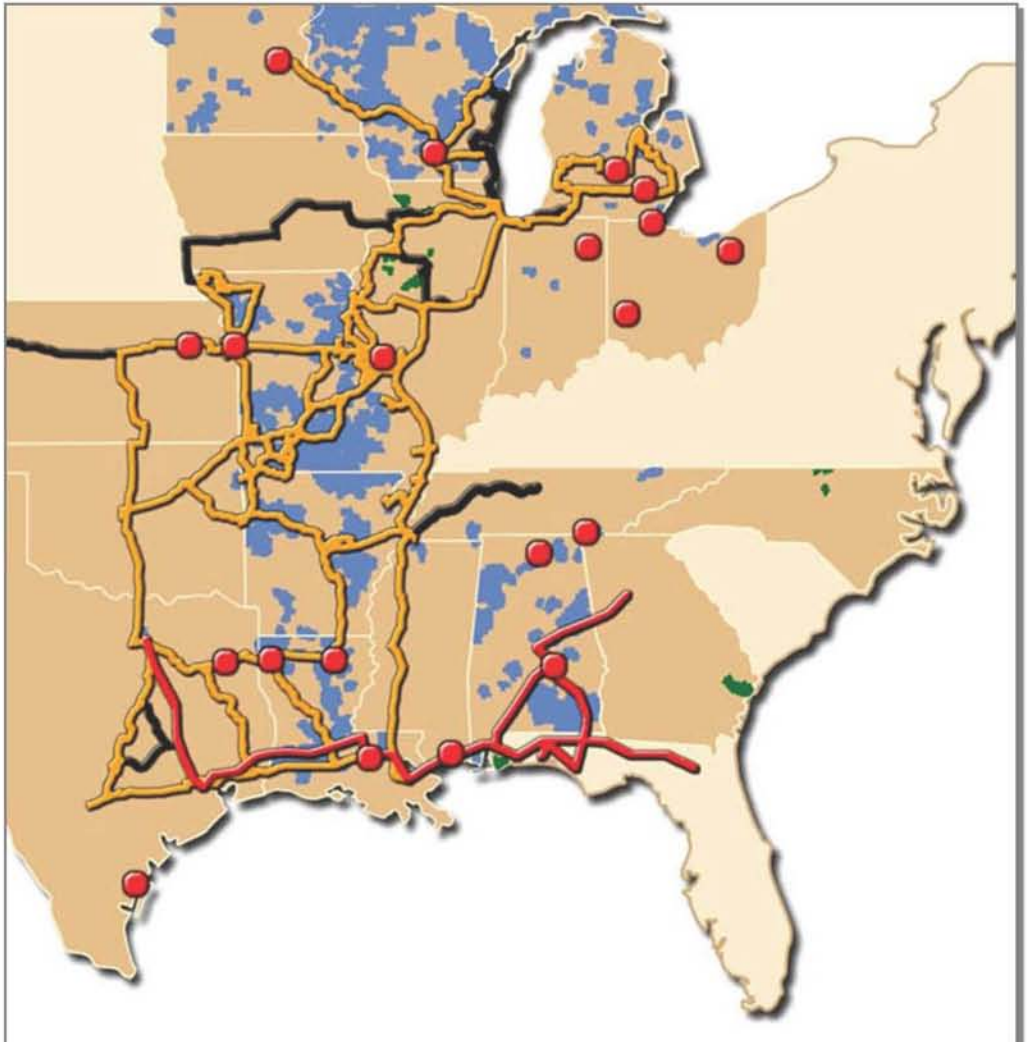
ONE Network Focus



Customers (with MR) –	June 30, 2007
Wireline	2,205,240
LD Lines	1,302,115
High Speed Internet	500,441
Dial-up	80,871

CenturyTel personal touch advanced communications

Combined Operations



- CenturyTel Wireline
- Madison River Wireline
- LightCore Fiber
- LightCore Fiber (Dark)
- Madison River Fiber
- Competitive Market

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EX PARTE PRESENTATION TO
FEDERAL-STATE JOINT BOARD ON UNIVERSAL SERVICE
Broadband Deployment Case Studies in Unserved Rural Markets

October 2007

- **As broadband is deployed deeper into the network to enable smaller communities, it is clear that a number of key obstacles limit the ability of providers to deploy broadband.**

  - **In many instances a lack of population density in unserved rural markets requires tremendous amounts of plant investment and upgrades to deliver broadband over a wide geography.**

  - **While copper facilities may be sufficient to provide high quality voice service in these markets, broadband requires more fiber deployment coupled with shorter copper loops; these key network enablers can be fairly expensive on a per subscriber basis.**

  - **Transport network requirements and costs are significant to backhaul broadband data from remote rural communities to an Internet hub.**

    - **Multiple T-1's or a DS-3 are required to transport broadband data traffic**

    - **Transport distances can be quite lengthy.**

  - **Today, we have roughly a 20% take rate for broadband in our markets and we anticipate this could double to 40% in the next five years; in a small community of 200, we would only have 80 broadband subscribers at the end of five years.**

  - **Small market economics do not allow service providers an opportunity to generate positive returns on broadband investments to rural areas.**

  - **The cost per addressable subscriber increases dramatically in smaller markets with only a few hundred customers; the economics simply don't work.**

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Broadband Case Studies for Unserved Markets[i]

1. **Community A has 288 access lines, 88% are residential and 12% are primarily small businesses; the market does not have broadband and the costs of deploying broadband are as follows:**
   - **At a cost of $330,000, 10 miles of fiber will have to be trenched or attached to poles; a DSLAM will have to be purchased for roughly $6,000 and additional electronics for the fiber and DSLAMs will have to be deployed.**
   - **Once the fiber is deployed, transport costs of $1,200 per month will be incurred for T-1's to backhaul the interexchange data traffic to an Internet node.**
   - **This initial build will not provide everyone in the exchange broadband service because many customers live well beyond 18,000 feet of the central office; a little more than half of the market would be reachable with broadband.**
   - **Assuming a 40% take rate over 5 years, the company can expect to have roughly 40 DSL customers at the end of year five.**
   - **Broadband is initially priced at $35 declining to $28 per month at the end of the period**
   - **Over that same time period retail revenues from providing broadband will be approximately $48,000 while the recurring expenses will be $93,300; this excludes the $330,000 in capital costs to deploy the service.**
   - **Broadband rates would have to average $90 per subscriber over the time period for the company to break even simply on an expense basis ignoring the significant capital outlays and not allowing for a return on investment.**

2. **Community B has 149 access lines, 77% are residential and 23% are primarily small businesses; the market does not have broadband and the cost of deploying broadband are as follows:**
   - **A new $6,000 DSLAM will have to be deployed.**
   - **Additional fiber transport is not required, but we will have to purchase 2 T1's from the neighboring RBOC for interexchange transport at a cost of $1,640 per month to backhaul the data traffic to an Internet node.**

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- **This initial build will cover 76% of the market or 113 access lines**
- **Over 5 years, the company expects to have 36 DSL customers at the end of the period.**
- **Broadband is initially priced at $35 declining to $28 per month at the end of the period**
- **Over that same time period, retail revenues from providing broadband will be approximately $43,400 while the recurring expenses will be $117,600; this excludes the capital costs to deploy the service.**
- **Broadband rates would have to average $129 per subscriber over the time period for the company to break even simply on an expense basis ignoring the significant capital outlays and not allowing for a return on investment.**

[i] Based on actual communities.